

**USAID/ZAMBIA**

**PRIVATE SECTOR DEVELOPMENT RESULTS PACKAGE**

**7 February 2000**

**USAID ZAMBIA STRATEGIC OBJECTIVE 1  
PRIVATE SECTOR DEVELOPMENT RESULTS PACKAGE**

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**ANNEXES**

**A. Initial Environmental Examination**

## **GLOSSARY OF TERMS USED**

A&A	: Acquisitions and Assistance
ACP	: Africa, the Caribbean and Pacific countries accorded preferences by the European Union under the Lomé Convention
ADMADE	: Administrative Management and Design Project
ADS	: Automated Directives System
ASIP	: Agricultural Sector Investment Program
BAFO	: Best And Final Offer
CIB	: Contract Information Bulletin
CF	: Consultative Forum
CLUSA	: Cooperative League of the USA
CMS	: Credit Management Services
CoAg	: Cooperative Agreement
COMESA	: Common Market for Eastern and Southern Africa
CSP	: Country Strategic Plan
EXO	: Executive Office
FEWS	: Famine Early Warning System
FN-PSC	: Foreign National Personal Services Contractor of USAID
FY	: Fiscal Year
GDP	: Gross Domestic Product
GOZ	: Government of Zambia
HCD	: Human Capacity Development
HRDA	: Human Resources Development Assistance
IESC	: International Executive Services Corps
IR	: Intermediate Result
IRIS	: University of Maryland's Institutional Reform and the Informal Sector
LT	: Long Term
M&E	: Monitoring and Evaluation
MAARD	: Modified Acquisitions and Assistance Request Document
MCTI	: Ministry of Commerce Trade and Industry
MOH	: Ministry of Health
NGO	: Non-Governmental Organization
NLT	: No Later Than
OYB	: Operating Year Budget
PMP	: Performance Monitoring Plan
PSCAP	: World Bank-financed Public Service Capacity Building Program
PSO	: Private Sector Organization
PVO	: Private Voluntary Organization
R4	: Results Review and Resource Request
RCO	: Regional Contracting Officer
RCSA	: Regional Center for Southern Africa
REDSO	: Regional Development Services Office
RFP	: Request for Proposals
RP	: Results Package

## **GLOSSARY OF TERMS USED - Continued**

SADC	: Southern Africa Development Community
SO	: Strategic Objective
SOAG	: Strategic Objective Agreement
SOE	: State Owned Enterprise
SOW	: Statement of Work
ST	: Short Term
TA	: Technical Assistance
TDY	: Temporary Duty
UNDP	: United Nations Development Programme
USAID	: U.S. Agency for International Development
USDH	: U.S. Direct Hire employee of USAID
USPSC	: U.S. Personal Services Contract(or) of USAID
WTO	: World Trade Organization
ZACCI	: Zambia Chambers of Commerce and Industry
ZAM	: Zambia Association of Manufacturers
ZATAC	: Zambia Agribusiness Technical Assistance Centre
ZEGA	: Zambia Export Growers Association
ZNFU	: Zambia National Farmers Union

# 1. CONTEXT AND RATIONALE

## 1.1 Statement of Problems and Opportunities

### 1.1.1 Country Setting

As stated in USAID Zambia's 1998-2003 Country Strategic Plan (CSP): Zambia is a land of immense potential for economic growth.

- ✍ **Agriculture** - It has vast reaches of fertile yet uncultivated land. It has a tropical climate tempered by altitude. It normally enjoys good rainfall which provides nearly half the total water resources for southern Africa. Despite the threat of drought, it has the potential to be a leading food supplier in the region.
- ✍ **Minerals** - It enjoys significant mineral resources and is among the leading copper and cobalt producers in the world. These minerals can generate earnings for investment in Zambia's future.
- ✍ **Trade** - Although landlocked, it is on the crossroads between Southern, Eastern, and Central Africa, bordering eight other countries. It is a member of both the Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA) – indeed, headquarters of the latter. Its neighbors, Angola and the Democratic Republic of the Congo, have large mineral deposits themselves and are natural trading partners. This trading position provides great opportunities for the economy.
- ✍ **People** - Zambia's 9.7 million people are an immense asset - peaceful, hardworking, and working for a better life.

At independence, Zambia was tapping its immense potential. It was among the richest nations in sub-Saharan Africa. Now it is among the poorest, with an estimated per capita annual income of only US\$330. Zambia's fall resulted from its failure to adapt to changing political and economic realities. Its adherence to the principles of the Front Line States' embargo of Apartheid and support for the movement against Ian Smith's regime in Southern Rhodesia interrupted routes to the sea and exacerbated the effects of falling copper prices. More importantly, state dominance of the economy's productive sectors caused a decline in capital investment, as budget resources were diverted to maintaining highly subsidized social and economic services. The state decided to emphasize copper production and maize monoculture, regardless of whether this was economically rational or not. This led to inefficient investment and resource decisions. Extensive international borrowing to support consumption and imports to maintain a facade of normalcy left a huge unserviceable debt overhang. Continued emphasis on state ownership and control at all levels destroyed the system of private enterprise that provided goods and services. Per capita incomes dropped. Social services collapsed. Life expectancy dropped. Infant mortality rose. A one-party political system prevented the growth of any legitimate alternative political structures. More than two decades of this abuse brought the country into sustained decline. It hit bottom in the late 80's.

In 1991, democratic elections swept the ruling party from power and brought hope that things might improve. However, that has unfortunately not been the case. Although the government

has taken a number of positive steps – notably privatizing over 225 state-owned industries and withdrawing in large part from involvement in the economy – it has not always been able to "stay the course" on several others. At this juncture, economic reform remains uneven and political commitment to the reform is sometimes uncertain. Nonetheless, while recognizing the many challenges noted below, the Mission believes there continues to be a basis for dialogue and an opportunity to re-energize the reform process.

Recent analyses of economic performance over the last 18 months<sup>1</sup> summarize a number of problems, among which are:

- ✍ Government mismanagement of the privatization of the ZCCM copper mines has had a number of negative effects across the economy. These include: a loss of investor (and public) confidence, a loss of approximately US\$1 million/day in support of ZCCM while the sale languished, and finally sale in 2000 at a price about half of the amount that was offered by the original bidder.
- ✍ Losses due to HIV/AIDS continue to seriously undermine both the public and private sector's administrative capacity and technical skills.
- ✍ Government's weak approach to economic management, including expansion of the money supply to finance increased domestic credit, which is needed to finance the increasing public debt, has led, *inter alia*, to a high rate of inflation.
- ✍ Contracting political liberalization, corruption, and lack of transparency in governance have led to an uneven playing field, again decreasing investor confidence.
- ✍ Zambia's public and private sector managers generally came of age during the socialist regime have little collective knowledge and/or experience on how to position themselves and their country advantageously for a multilateral trading system. As regional and international trade regimes – COMESA, SADC, WTO – are implemented, these managers must learn and act quickly or be left off the playing field altogether.

There are many other problems, but these are most salient from the perspective of the private sector that is key to moving the economy forward. Zambia must find a way to develop and implement coherent development and growth policies that maintain and strengthen the Government's "hands-off" policies *vis à vis* the private sector, yet create an environment that encourages and supports investors to put their money into diverse, non-traditional exports. Among those policy-led actions that seem most indicated are elimination of the budget deficit and revaluation of the *kwacha*, which would make Zambia's position in regional and international markets more competitive. These are serious measures that would likely have severe negative social and political fallout, however, and few observers expect them to be taken in the near future. And they certainly cannot be taken by international donors or other outsiders, but must be directed by committed Zambian leadership.

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<sup>1</sup> Hill, Catherine B. and Malcolm F. McPherson, "Economic Growth and Development in Zambia: Further Thoughts on the Way Forward," 8<sup>th</sup> December, 1999, and unpublished analysis by Curt Waltert, USAID/Zambia/Program Office, December 1999.

USAID has invested considerable time and money over the last decade assisting Zambia to undertake a number of serious measures, notably the privatization of over 225 state-owned enterprises. With the right kind of assistance, good partners and persistence, USAID has helped Zambia make tremendous steps forward. At this juncture, given the dynamic economic and political environment, implementation of a "stovepipe" approach directed at one process (e.g. revaluation, privatization) or one sector (e.g. agriculture, tourism) does not seem indicated. Rather, USAID believes that the appropriate approach to assist Zambia to address its multiple problems must be one that is both multi-dimensional—covering a number of sectors and topics, institutions, and relationships – as well as multi-modal (e.g. TA, training, participatory fora, etc). The Private Sector Results Package described in this document seeks to do just that.

### 1.1.2 Private Sector Profile

The Zambia private sector is diverse, dynamic, and growing. The Central Statistics Office characterizes it by size, with micro-enterprises having less than 5 employees; small enterprises having 5 to 10 employees; medium having 11-100 employees; and large having 101 or more employees. Table 1 below provides a summary of medium and large enterprises by sector as of December 1999.

**Table 1: Zambian Medium and Large Enterprises,  
by Sector, Number, and Employment**

Sector	Number		Employment	
	Large	Medium	Large	Medium
Agriculture, hunting, fishing, forestry	87	4242	67,363	16,048
Mining and Quarrying (excludes various ZCCM mines which were not yet privatized)	8	9	41,516	365
Manufacturing	101	897	43,523	32,096
Electricity, Gas, Water	4	2	7,147	80
Wholesale, retail trade, hotels, bars, and restaurants	29	643	5,955	69,040
Construction	19	107	14,096	3,979
Transport, storage & communication	20	160	5,794	4,674
Finance, insurance, and estate and business services	42	235	18,871	9,580
Community, social and personal services	44	331	8,152	6,966
<b>TOTALS</b>	354	2,808	212,417	142,818

**Source: Central Statistics Office, December 1999.**



Table 1 shows that agriculture and manufacturing clearly dominate the medium and large sectors, both in terms of number of enterprises and in terms of employment. The services industries – wholesale & retail, transport, finance, community – cluster at a somewhat smaller individual scale, but significant when taken together.

A survey of 499 micro- and small enterprise (MSE) trainees by the USAID-funded Human Resources Development Project (HRDP) found some differences in the distribution of number of businesses at these smaller scales: trading, 41.7 percent; agriculture/agribusiness, 19.0 percent; services, 17.4 percent; and manufacturing, 9.4 percent (12.5 percent were "other"). The evaluation also noted that "...substantial numbers of former state-owned enterprise employees have establish or are trying to establish small businesses, basically as the only option for them to generate income. ... approximately 20 percent of applicants for training had been "retrenched," along with a scattering of retired government functionaries. This means that not only the poor who are seeking to establish or improve existing businesses, but recently displaced members of the middle class are also entering the ranks of the small and micro entrepreneurial community. This makes the challenge for HRDP and other small business projects all the greater." Indeed, "There is increasing recognition that the country's small and micro-sized enterprises (estimated conservatively to number over 600,000) is an – if not "the" – engine for economic growth in Zambia."<sup>2</sup>

Essentially, the large, medium, and small enterprises are considered part of the "formal" sector, whereas microenterprise is generally considered "informal." In 1996, only 12 percent of the workforce was employed in the formal sector, and 20 percent was unemployed. In fact, formal sector employment decreased by almost 20 percent from 1986 to 1996, from 597,300 to 479,300, due to poor economic performance and major restructuring. However, a presumed significant shift in formal sector employment patterns during the same decade did not occur, in spite of restructuring and privatization. The private sector's share of formal sector employment only increased marginally, from 43 percent to 45 percent, over the decade, and the central government's share of employment actually increased from 21 to 28 percent. Informal sector employment remained significantly greater than formal sector throughout the period, and was estimated at 3,371,000 (2,436,000 rural and 935,000 urban) in 1996,<sup>3</sup> accounting for 68 percent of total employment..<sup>4</sup>

Many of Zambia's formal sector businesses are members of one or more representative private sector organizations (PSOs). The "apex" PSO in Zambia is the Zambia Chamber of Commerce and Industry (ZACCI). As summarized in the HRDP evaluation:

While the clear impression is that ZACCI has – or is perceived to have – political power in that it is able to influence public policy, it has only marginal institutional capacity to

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<sup>2</sup> Robert Landmann and Howard Gray, "Assessment of the Human Resources Development Project (ZACCI/HRDP)", USAID Contract No. PCE-I-oo-97-00014-00 Task Order #806, CARANA Corporation, Arlington, Virginia, July 1999, pp. 4 and 9

<sup>3</sup>From "1996 Living Conditions Monitoring Survey Report," analysis by USAID/PRM, December 1999.

<sup>4</sup> From STAR Group, "IFI Study and Database Final Report," August 1998, Table 4, p. 4, sourcing the Central Statistics Office.

provide services to its members. It appears to be more a venue for leaders of large and medium scale companies to meet and discuss policy issues, taking public positions on selected issues of concern. This is a legitimate and useful role, but as it is presently structured and funded, ZACCI is in no position to furnish the range of services to its membership typically offered by similar associations elsewhere. ... The larger companies, including international corporations, which dominate ZACCI, perceive few common interests with the MSE community. They believe what they consider as their own support for economic reform and liberalization to run counter to what they perceive as more regressive attitudes of MSEs. The fact of the matter is, however, that businesses of all sizes do have common interests. Moreover, those MSEs that were interviewed uniformly expressed varying degrees of understanding of and support for economic reform. Clearly there is a communications gap which needs to be bridged.<sup>5</sup>

There is a vast number of more sub-sector specific representative PSOs throughout Zambia which have greater or lesser roles in the policy debate, often depending on the strength of the incumbent PSO president. Among those with which USAID has some experience are: the Zambian Association of Manufacturers (ZAM), the Zambian Export Growers Association (ZEGA), the Zambian National Farmers Union (ZNFU), the Tourism Council of Zambia (representing a number of tourism PSOs), and the 9 provincial and 37 district level small business associations throughout the country. These latter were established with assistance from the USAID-funded HRDP project, which is funded through ZACCI. The July 1999 evaluation found that in general, the associations were institutionally underdeveloped, and needed assistance to be able to provide services in: advocacy, networking and brokering (backward and forward linkages); market information; access to training; and access to technical assistance.

The status and contribution to Zambia's development of private enterprises and representative PSOs is summarized in the most recent USAID-financed overview of the entire private sector, "Zambia: Private Sector Assessment," by Betty Wilkinson of The IRIS Center, in May 1997. The document provides a summary "snap-shot" of the overall private sector and includes a number of options for potential USAID assistance. It comprises a summary assessment of Zambia's macro-economic environment; identifies the major constraints to private sector growth in Zambia; discusses GRZ policies that assist or retard private sector growth; identifies private sector activities that have the most potential for encouraging growth in investment, employment, and growth generally; advises on the three or four most promising areas for USAID assistance in private sector development; assesses the relevance of the USAID on-going private sector assistance through the Human Resources Development Program (HRDP) and the International Executive Services Corps (IESC), and recommends ways to enhance the activities; describes other donor activities and comments on possible complementarities and redundancies; and comments on cross-cutting themes of gender and Southern Africa Regional linkages. The PS Assessment remains a key reference document for USAID's private sector program.

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<sup>5</sup> Landmann and Gray, Carana Corporation, pp. 16-17

### 1.1.3 USAID Assistance to Private Sector Development in Zambia

As described in the PS Assessment, USAID private sector assistance since 1992 has included privatization, advisory services for small business, training of Zambian managers in the US, and domestic and international training programs for small business. The privatization program is widely considered one of the more successful in Africa<sup>6</sup>, and has assured USAID a continuing "place at the table" in private sector and macroeconomic policy dialogue.

In the last two years, USAID has provided frequent and useful short-term technical assistance (TA) to the Ministry of Commerce Trade and Industry (MCTI) for various analyses and preparations related to Zambia's World Trade Organization (WTO) accession and on Southern Africa Development Community (SADC) trade protocol issues.<sup>7</sup> USAID also recently funded an "Investor Roadmap for Zambia" that provides government, local, and international investors with information on "second tier" policy and LRJ constraints.<sup>8</sup> USAID/Zambia plans to continue this assistance through the placement of a long-term Trade Advisor at the MCTI during second quarter FY 2000, and through more significant assistance for the duration of the CSP plan period discussed in subsequent sections of this RP.

At the regional level, USAID's Regional Development Services Office (REDSO) is providing almost US\$4.5 million over the period FY 1997 – FY 2002 through a Limited Scope Grant Agreement (LSGA) with the Lusaka-headquartered Common Market for Eastern and Southern Africa (COMESA) which will benefit Zambia's private sector at all levels. Activities include:

- ? strengthening regional private sector organizations (PSOs);
- ? TA for harmonizing regional telecommunications;
- ? development of a regional network/internet enabled system for reporting and information sharing of regional analyses, trends, interests and impacts in trade and commodity movement;
- ? WTO training and dissemination (using complementary Africa Trade and Investment Program (ATRIP) funds);
- ? development of a regional investors roadmap to complement national investor roadmaps (such as that for Zambia);
- ? preparation of a gender impact assessment;
- ? preparation of a regional trade analytical agenda, with particular attention to informal cross border trade in East and Southern Africa, and to the costs of transport in the Horn of Africa and southern Africa;
- ? evaluation and dissemination of lessons learned from microenterprise programs in Kenya, Uganda, and Tanzania;

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<sup>6</sup> See the Price Waterhouse "USAID Review of Privatization in Zambia," December 1996.

<sup>7</sup> See Carana Corporation, "Recommended Actions to Strengthen Zambia's Trade Legislation and Trade Policy Analysis," Report presented to the Zambian Ministry of Commerce, Trade, and Industry as preparation for the High Level Meeting of the World Trade Organization, October 27, 1997.

<sup>8</sup> The Services Group, "Investor Roadmap for Zambia Final Report," Contract No. PCE-0026-Q-00-3031-00, Delivery Order 834, PricewaterhouseCoopers LLP, October 1998.

- ? institutional strengthening of the COMESA Secretariat in Lusaka; and
- ? program management.

USAID/Zambia's PS-RP Team will coordinate with its REDSO and COMESA partners to assure complementarity of efforts as the regional LSGA and this bilateral PS-RP are implemented.

Also at the regional level, over the past two years USAID's Regional Center for Southern Africa (RCSA) has provided *ad hoc* assistance for a number of private sector investment and trade related issues. These have included assistance to the MCTI on SADC trade protocol issues and for a baseline analysis on WTO conformity; short-term TA to COMESA to restructure its multi-country vehicular insurance scheme ("yellow-card insurance"); preparation of a study on COMESA Rules of Origin; and collaboration with USAID/Zambia on energy-related issues. USAID/Zambia plans to complement its bilateral efforts and will continue to draw on similar types of RCSA assistance, as needed, through the CSP plan period.

At the bilateral level, in addition to its work on private sector investment and trade related issues, USAID/Zambia is continuing support to micro and small enterprises (MSE) through its cooperative agreements with IESC, HRDP, and CMS.

- ? The International Executive Services Corps (IESC) cooperative agreement covers a two-year period (1998-2000) for US\$1.48 million. IESC provides strategic assistance to PSOs as well as hands-on TA to individual small and medium businesses, on a cost-sharing basis. Some examples of strategic assistance include, IESC's 1994 work with the Tour Operators Association of Zambia, which helped the group establish marketing strategies and, importantly, taught the 23 disparate members the value of group action. Also, in 1996 IESC volunteer executives worked with the nascent Tourism Council of Zambia – which included representatives of the Tour Operators Association as well as counterparts from wildlife, hotel, and related PSOs – to formulate its constitution and mandate and to develop its first annual plan.

As an example of hands-on TA, an IESC volunteer worked with 20 small hotels in secondary towns and cities to help upgrade standards and improve services for visiting Zambian businessmen; one of the hotels recently made the US Embassy's short-list for an Ambassadorial visit. Also, two IESC volunteers worked with 26 wildlife ranches to establish wildlife production standards to improve stock health and production. One of the volunteers was the Director of the Wildlife Production Center at the University of Pretoria. He used the opportunity to establish a relationship with Zambia's Wildlife Producers Association that has endured. At least five South African PhD candidates have done fieldwork in Zambia, and two of the dissertations have been published and are considered "state-of-the-art" for wildlife production in southern Africa.

This sort of follow-up is not unusual for IESC volunteers; the Regional Director estimates that approximately 60 percent of volunteers remain engaged with clients, and provide virtual coaching and business tips long after the formal contract is finished.

? The Human Resources Development Program cooperative agreement is to the Zambian Chamber of Commerce and Industry (ZACCI) for four years (1997-2000) for US\$1.55 million. The HRDP provides training for rural entrepreneurs in accountancy, marketing, quality control, management, and other business skills. As reported in the 1999 evaluation, between April 1997 and March 1999 HRDP conducted 47 workshops for 1,155 participants, 44 percent of whom were female. Only three of the courses were held in Lusaka, and the remainder in 19 different locations throughout the country.

A tracer survey undertaken as part of the July 1999 HRDP evaluation found that respondents aggregate income streams increased 16 percent in US dollar terms between 1997/98 and 1998/99, during a period with 30 percent inflation. Similarly, the data show that profits improved by 13.9 percent in US dollar terms. Over 95 percent of program participants reported that their profits had increased after training, directly linking the expanded margins to HRDP assistance.<sup>9</sup>

Major ongoing activities include recruitment of more members to district small business associations of which currently 37 branches are in place. The July 1999 evaluation found that in general, the associations were institutionally underdeveloped, and needed assistance to be able to provide services in: advocacy, networking and brokering (backward and forward linkages); market information; access to training; and access to technical assistance.

? The Credit Management Services Microfinance Program (CMS) is a three-year cooperative agreement (1999-2002) with joint financing from USAID/Washington (US\$0.7 million) and USAID/Zambia (US\$0.8 million). CMS provides credit services to about 10,000 MSEs, of which an estimated 80 percent are women-operated. CMS is headquartered in Kabwe, and has branch offices operating in Kabwe, Lusaka, Mazabuka, and Luapula provinces. CMS uses a group lending methodology, with mandatory savings and group loan guarantees, similar to the Grameen Bank model. The maximum first loan is about US\$100, and the maximum loan of any size is KW1 million (or about US\$5,000). CMS hopes to triple the number of its loans outstanding to about 10,000 by the end of USAID assistance. As the PS-RP assistance only began in February 1999, few results have been accrued.

## **1.2 Relationship to USAID Zambia CSP**

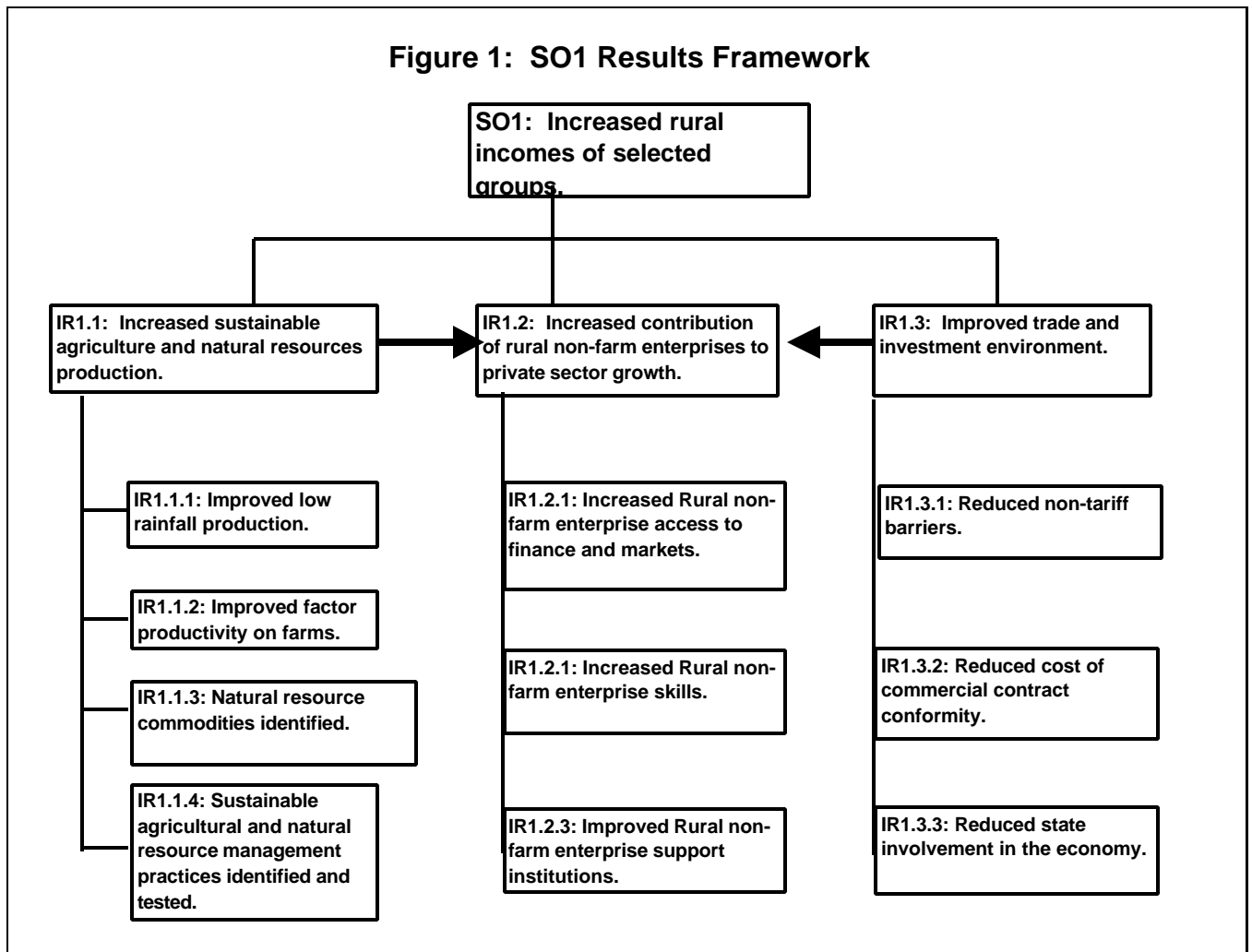
USAID's Strategic Objective (SO) #1 of its current Country Strategic Plan (CSP) for the period 1998 – 2002 is *to increase rural incomes of selected groups* in Zambia. The "selected groups" to benefit directly from USAID assistance include micro, small, and medium farmers and rural non-farm entrepreneurs with whom USAID's partners are working. The Mission has met or exceeded all SO1 targets to date.

The SO1 Results Framework (RF) is presented in Figure 1 below:

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<sup>9</sup> Landmann and Gray, Carana Corporation, July 1999.

**Figure 1: SO1 Results Framework**



The original development hypothesis underpinning USAID/Zambia's SO1 Results Framework is that three key sets of interventions can effectively fill the gap left when the GRZ redefined its role in rural markets in the reforms begun in 1991. These key sets of interventions are increasing production, improving productivity, and reducing constraints to private sector growth. The CSP posited that in combination, these interventions would lower transaction costs, thereby increasing the efficiency of the system and Zambian competitiveness. Their ultimate impact was expected to help take Zambia's economic reforms to the next step -- moving beyond liberalization and deregulation to fulfilling the promises of direct and tangible benefits to the rural population. As stated above, SO1 has met or exceeded all of its targets to date, so the original hypothesis can be considered valid.

Unfortunately, as summarized in section 1.1.1 above, the GRZ has demonstrated less-than-optimal transparency, political will, and progress in actually implementing all of its new, liberalized policy regime, and real benefits to the rural population are only marginally improving. The challenge to SO1 is how to accelerate the implementation of policies so that they provide the

necessary stimulus to investment and growth for those who need it most. This involves moving beyond the "first tier" of policy reform and into the more complex "second tier" adjustment of the legal, regulatory, and judicial (LRJ) systems necessary to implement the reforms. Deriving from USAID's analysis of Zambia's private sector, as summarized in section 1.1.2, and its experience to date, as summarized in section 1.1.3, such movement requires attention to the following key processes:

- ? reducing internal barriers to trade and investment – i.e. access to adequate land, skilled/trained labor, and sufficient capital for investment at all levels;
- ? harmonizing Zambia's policy and LRJ systems with those of its current and potential external economic partners – i.e., priority harmonization with key trading partners in SADC and COMESA and full harmonization with WTO protocols prior to Zambia's target of 2003 for accession compliance;
- ? disseminating information and providing training on application of the streamlined and harmonized policy and LRJ regimes, both to the general public, in terms of the benefits of increased regional and global trade, and more specifically for public and private sector users at all levels;
- ? building capacity to effectively communicate, manage, and advocate for continued improvements in policy and LRJ regimes, with key public and private sector partners, including representative private sector organizations (PSOs) at the national, provincial, and district levels; and
- ? fostering effective linkages to optimize rural income-generating investment and trade opportunities between and among producers, suppliers, processors, traders, supporters, and consumers within and outside of Zambia.

These five processes comprise the core PS-RP program for FY 2000-2004. They will contribute to improving productivity and reducing constraints to private investment, which are two of the three key sets of interventions identified in the SO1 development hypothesis, and essentially two of the three SO1 IRs.

This Results Package (RP) Document builds on USAID's experience with the privatization of state-owned enterprises, its more recent training efforts through HRDP and IESC, and the recommendations of the PS Assessment and other recent analyses. The document lays out USAID's proposed strategic management plan, tools, and tactics to address the needs of all levels of private enterprises in Zambia, from the very large former SOEs to microenterprises in rural areas. ***Our hypothesis is that the establishment of forward and backward linkages among enterprises within Zambia, as well as between Zambia and the rest of the world, is critical to economic growth. Our operating assumption is that Zambia's private sector is in the midst of change and we cannot at this time predict exactly which level, and which tactic, will have the***

*most impact on rural income (USAID's SO1). As experience is gained and results become more apparent, we will adjust implementation modalities to maximize impact as possible.*

Zambia's micro- and small enterprises (MSEs) will participate in and benefit from the USAID-financed policy/LRJ improvements, information dissemination and training, and PSO capacity building and advocacy activities, as targeted to their needs. USAID will additionally continue modest funding for MSE-targeted training and other assistance by HRDP, IESC, and Credit Management Services (CMS, a microfinance institution), to provide more direct benefits to this customer segment. As stated above, many believe that microenterprise is the engine of growth for Zambia's future, and it certainly provides the bulk of non-farm employment at this time. To the extent that USAID can assist it in gaining skills and knowledge to better link up to the larger economy, we expect significant impact through these efforts.

Any future USAID assistance to the large former SOEs and other large and medium enterprises will generally be indirect, through improvements to GRZ policy and legal, regulatory, and judicial (LRJ) regimes as they affect private trade and investment. USAID will also support information dissemination and training for various audiences – including large and medium businesses -- in application of new regimes. Finally, USAID's support to representative private sector organizations (PSOs) for capacity-building and advocacy will also positively benefit the large and medium sectors (although cost-sharing will be a prominent feature of such assistance).

### **1.3 Relationship to Other Donor Programs**

About sixteen bilateral and multilateral donors provide assistance in the area of private sector growth. Accurately estimating donor funding is difficult due to their scope, and a general lack of consolidated information. A rough estimate of total donor disbursement is between \$40 - \$45 million per annum. Major donors in these areas are the World Bank, UNDP, FAO, Netherlands, SIDA, FINNIDA, NORAD, European Union, Japan, African Development Bank, UK/DFID.

The World Bank has unsuccessfully promoted an Agricultural Sector Investment Program (ASIP) to eliminate project redundancies, stimulate Zambian ownership of donor support, and encourage agricultural development. The Ministry of Commerce, Trade and Industry, through the Zambia Privatization Agency, continues with major privatizations; the latest in a line of major successes being the imminent privatization of the Zambia Consolidated Copper Mines which earn 80 percent of Zambia's foreign currency. The Ministries involved in private sector growth are focussing more attention on export and regional trade issues and building effective partnerships with SADC and COMESA counterparts.

The World Bank is the single largest funder of private sector support activities, from legal reform through privatization to direct business financing. UNDP focuses on employment creation through small enterprises, women entrepreneurs and policy support. The UK has a major microfinance project in place and are co-funding a Venture Capital Fund. Ireland works with the Investment Center. Japan and Finland work on vocational training. Germany finances macro-economic enhancement and provides advisory services to the Ministry of Commerce, Trade and



Industry. The EU works with the Export Board. Under the EU's trade and enterprise support facility, firms can access forex loan funds for feasibility studies and later for investment.

In agriculture, most donors focus on participatory approaches to rural poverty alleviation through increased production and productivity and food security. The European Union provides support to high value crop production and exportation (floriculture, tobacco, horticulture). USAID is the only donor, perhaps with the exception of SIDA and the Dutch, that specifically focuses on the private sector's role in rural economic growth and developing agribusinesses with linkages to small holders.

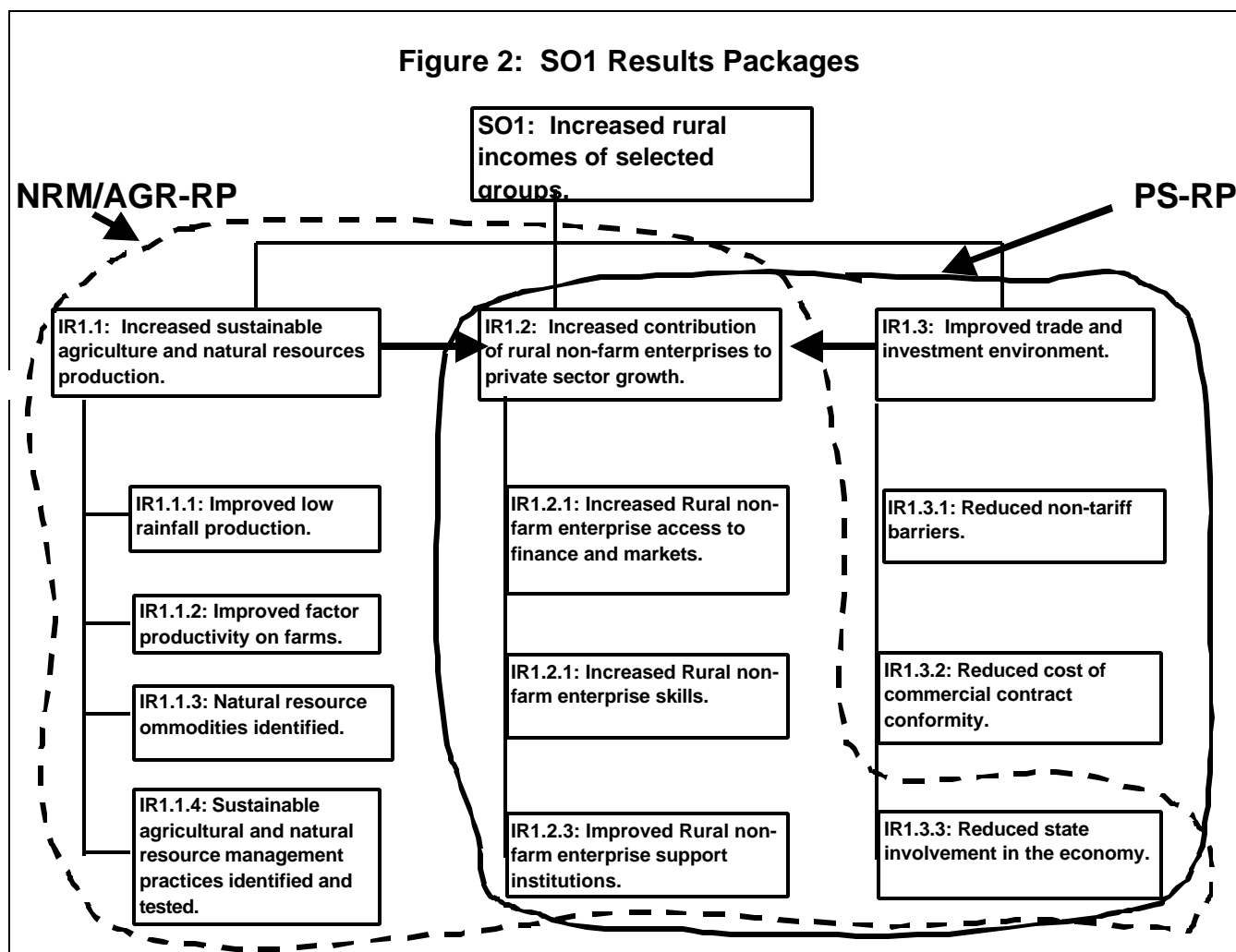
The World Bank has initiated an environmental sector investment program aimed at coordinating donor and Ministry of Environment activities. The National Environmental Action Plan and the National Forestry Action plan are blueprints for the implementation of these activities. The European Union has sponsored a major restructuring activity with the Ministry of Tourism and the National Parks and Wildlife Service including finalizing new wildlife legislation. The Japanese are financing infrastructure and service improvements in the Kafue National Park.

## **2. SUMMARY OF EXPECTED RESULTS**

### **2.1 SO1's Management for Results**

USAID's overall strategy for SO1 for the remainder of the CSP period is to continue to assist the GRZ, private sector, selected non-governmental organizations and private sector representative organizations in order to achieve *increased rural incomes of selected groups* in Zambia, the approved SO1 statement. The Mission has met or exceeded all SO1 targets to date, and will present any modifications to future targets through the plan period as part of the FY 2002 R4 submitted in March 2000. An additional indicator that reflects the broader private sector achievements discussed below are presented in section 6 of this RP document and will be detailed in future R4s.

The SO, *increased sustainable rural incomes*, requires that production, productivity and the economic environment be addressed simultaneously, for both farm and rural non-farm enterprises. In order to "manage for results" in this regard, as planned in the CSP, the Mission has clustered its resources to achieve SO1 into two RPs: a Natural Resources Management /Agribusiness RP (NRM/AGR RP) that focuses primarily on increases in production and productivity, and a Private Sector RP (PS-RP), that addresses productivity and also seeks to improve the broader economic environment. The respective responsibilities for achieving SO1 results are shown in Figure 2.



To promote synergy with the NRM/AGR RP and achieve greater SO1 impact, PS-RP support will focus on economic sectors most likely to enhance rural incomes: private sector-led agriculture (including marketing and processing), natural resources, and tourism centered on Zambia's natural environment (e.g. eco- and adventure tourism). Agriculture/natural resources management is the primary source of income for approximately 60 percent of Zambia's population, and presents the greatest opportunity for broad-based economic growth. Tourism is contributing an increasing share to GDP – 9.6 percent in 1996 – and given Zambia's natural endowments of parks and wildlife, presents a significant opportunity to create "growth poles" in rural areas.

## 2.2 The Private Sector Results Package (PS-RP)

As stated in section 1.2 above, the key hypothesis of the PS-RP is that ***establishment of forward and backward linkages among enterprises within Zambia, as well as between Zambia and the rest of the world, is critical to economic growth.*** The key operating assumption is ***that the***

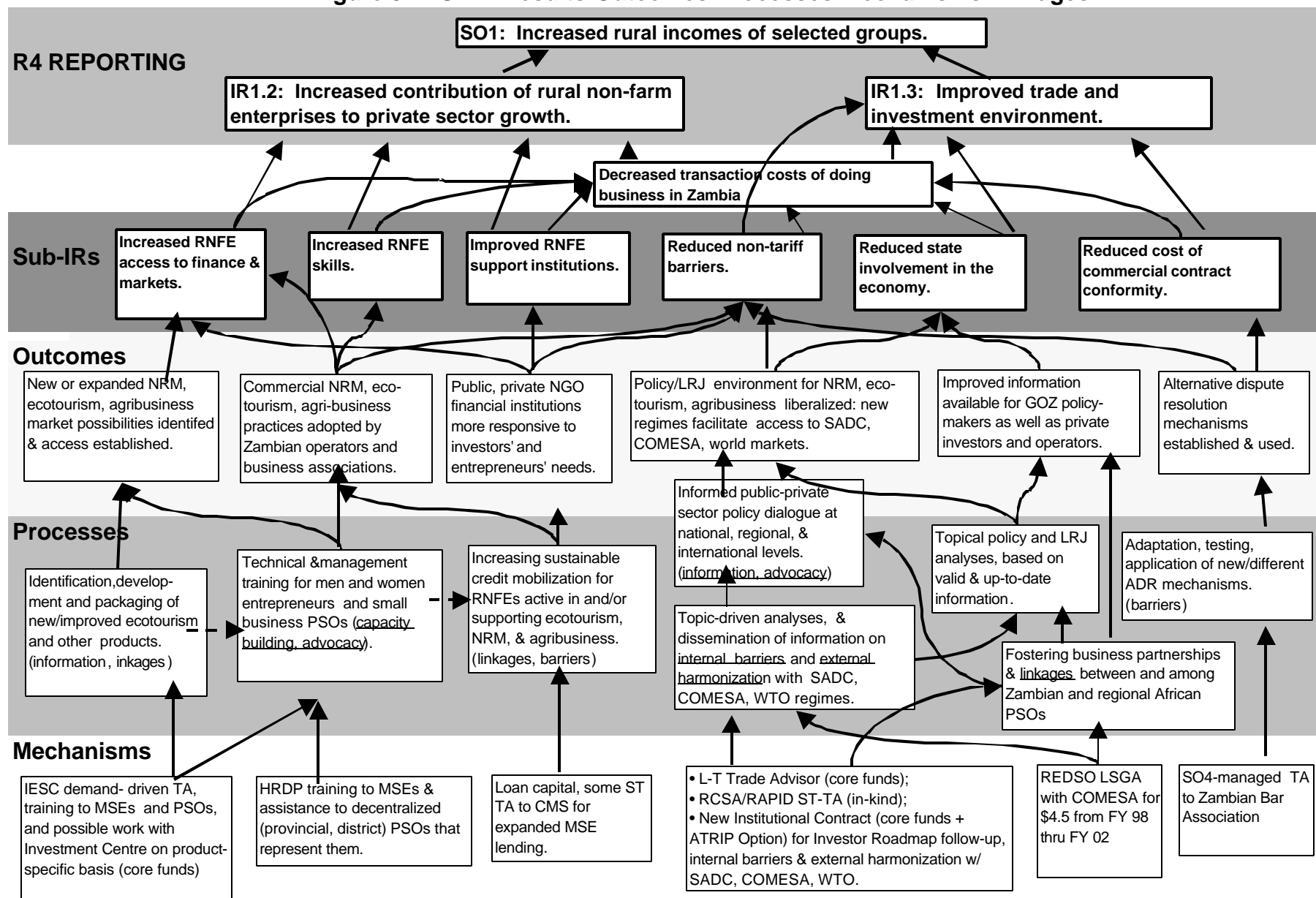
*Zambia's private sector is in the midst of change and we cannot at this time predict exactly which level, and which tactic, will have the most impact on rural income (USAID's SO1). As experience is gained and results become more apparent, we will adjust implementation modalities to maximize impact as possible.*

As presented in section 1.2, five key PS-RP processes will contribute to improving productivity and reducing constraints to private investment, which in turn are two of the three key sets of interventions identified in the SO1 development hypothesis (ref. 1.2), and essentially two of the three SO1 IRs. The five PS-RP processes are:

- ? reducing internal barriers to trade and investment – i.e. access to adequate land, skilled/trained labor, and sufficient capital for investment at all levels;
- ? harmonizing Zambia's policy and LRJ systems with those of its current and potential external economic partners – i.e., priority harmonization with key trading partners in SADC and COMESA and full harmonization with WTO protocols prior to Zambia's target of 2003 for accession compliance;
- ? disseminating information and providing training on managing and applying the streamlined and harmonized policy and LRJ regimes, both to the general public, in terms of the benefits of increased regional and global trade, and more specifically for public and private sector users at all levels;
- ? building capacity to effectively communicate, manage, and advocate for continued improvements in policy and LRJ regimes, with key public and private sector partners, including representative private sector organizations (PSOs) at the national, provincial, and district levels; and
- ? fostering effective linkages to optimize rural income-generating investment and trade opportunities between and among producers, suppliers, processors, traders, supporters, and consumers within and outside of Zambia.

Following the key PS-RP hypothesis, USAID will use a variety of tools and tactics to engage selected customer segments to achieve the specific results. In general, PS-RP efforts to achieve **IR1.2**, increased contribution of rural non-farm enterprises (RNFEs) to private sector growth, will target the MSEs that form the bulk of the RNFEs, and will center on three key processes disseminating information and providing training, building capacity to effectively communicate and advocate for continued improvements in policy and LRJ regimes, and fostering effective linkages. PS-RP efforts under **IR1.3**, improved trade and investment environment, will target the medium and large enterprises and the representative PSOs and GRZ agencies that support them, and will utilize all five key processes to achieve the desired change. Figure 3 on the next page provides a graphic illustration of how these key processes will produce the PS-RP and SO1 results. Section 2.2.1 and 2.2.2 that follow discuss achievement of sub-results in more detail

Figure 3: PS-RP Results-Outcomes-Processes-Mechanisms Linkages





### **2.2.1 IR1.2: Increased contribution of rural non-farm enterprises to private sector growth**

As stated above, the PS-RP key hypothesis is that *establishment of forward and backward linkages among enterprises within Zambia, as well as between Zambia and the rest of the world, is critical to economic growth*. Because approximately 60 percent of the population live in rural areas, activities in support of IR1.2 target rural non-farm enterprises (RNFEs). This IR targets as a customer segment the micro, small, and medium entrepreneurs active in rural areas. USAID funding will continue to be used for activities that focus on economic sectors most likely to enhance rural incomes: agriculture, natural resources, and tourism centered on Zambia's natural environment (e.g. eco- and adventure tourism).

The indicators of USAID achievement of this IR are: 1) increase in value of commodities or services sold by assisted groups; 2) increase in RNFE use of commercial credit, production inputs on credit, and investment of retained earnings; and 3) number of clients/members of institutions that support RNFE members. USAID is on track for all of its targets for these indicators to date.

USAID's SO1 AGR/NRM-RP contributions toward this IR include a number of activities: CLUSA Rural Group Business Project (credit, high value crop production and marketing, forward contracts between small farmers and agroprocessors), CARE Livingstone Food Security Project (low rainfall seed multiplication and distribution, village management committee seed loan programs) CLUSA Community Based Forest Management (credit, high value crop production and marketing), ZATAC (business development services to agribusinesses that buy from or sell to small farmers, including investment sourcing).

With reference to Figure 3 above, USAID's SO1 PS-RP will continue to contribute to IR1.2 sub-results through key processes as follows:

**IR 1.2.1, Increased rural non-farm enterprise access to finance and markets**, will require facilitating establishment of linkages between micro, small, and medium enterprises in rural areas with processors, financial markets, commodity and services markets, and other sales and growth opportunities. The micro, small, and medium entrepreneurs need information to understand free-market opportunities and constraints, particularly as Zambia moves into the greater global marketplace. They also require training to be able to use the information to act on the new financial and market opportunities.

**IR 1.2.2, Improved rural non-farm enterprise skills**, will require training for Zambian RNFEs, particularly those of micro, small, and medium scale, to increase their knowledge in product and market identification, business planning, sub-contracting, franchising, leasing and e-commerce, contract negotiations, decision-making and funds management. As the entrepreneurs adopt new technical and management practices, they will be much better positioned to serve as suppliers of larger firms (hence establishing forward linkages) and to increase productivity and profit themselves.

**IR 1.2.3, Improved rural non-farm support institutions**, is to be achieved through formation, development and skills training and capacity building in advocacy and other skills for business associations and rural group businesses, giving RNFEs more collective clout in their markets by cooperation with other RNFEs.

Primary implementing partners helping USAID to achieve IR1.2 and its sub-results include IESC, HRDP, and CMS, in collaboration and consultation with regional, national, provincial, and district level business associations and other PSOs, and with GRZ support agencies such as the Investment Centre where indicated.

## **2.2.2 IR1.3: Improved trade and investment environment**

USAID's key hypothesis indicates work on implementing Zambian policy and LRJ regimes that are within the GRZ's manageable interests, as well as harmonization of Zambia's policy and LRJ regimes with its key trading partners in the region – e.g. SADC and COMESA – and the global marketplace. Zambia is a member of the WTO but has been given until 2003 for accession compliance with all WTO agreements. This IR targets as a customer segment the "higher end" medium and large entrepreneurs, as well as the GRZ agencies and PSOs that support them. USAID funding will provide information and analyses of options, and foster dialogue to build consensus on decisions, to reduce internal barriers to trade and investment and to harmonize Zambia's regimes with the external environment.

USAID has to date only used one indicator to measure achievement of this IR, an increase in the annual value of non-traditional agricultural and natural resource exports. Section 6 of this RP document proposes an additional indicator to better reflect the broadened policy/LRJ impact expected from PS-RP interventions: *improved national trade and investment policies, legislation, regulations developed, approved, and implemented.*

USAID's SO1 AGR/NRM-RP contributes to this IR through funding to the Michigan State University (MSU) Food Security Research Project. This project supports research by the Ministry of Agriculture, Food and Fisheries, the public-private sector Agriculture Consultative Forum and MSU on policy issues that affect food security. Examples of such policy issues include how best to increase small farmer land and labor productivity, how to address rural finance risks, how regional market integration affects food security, etc. At the end of the strategy period the GRZ will have better data and analysis on which to base future fertilizer, marketing and trade policy decisions. USAID funding through the AGR/NRM-RP also supports the operations of the Agriculture Consultative Forum Secretariat which is a cutting-edge institution that brings together GRZ ministries, NGOs and agribusiness representatives in regular discussion fora that explore important agricultural and economic policies.

With reference to Figure 3 above, USAID's SO1 PS-RP financing will continue to contribute to IR1.3 sub-results through key processes as follows:

**IR 1.3.1, Reduced non-tariff barriers**, will require implementation of a myriad of "second tier" policy and LRJ reforms that will actualize earlier reforms. Activities will promote policies to

reduce internal barriers that deter investment, and to harmonize Zambia's policy and LRJ systems with those of its current and potential external economic partners, including SADC, COMESA, and the global WTO arena. Key policies to examine and influence would include exchange rate valuation and various growth strategies, including development of consensus for an export-led strategy. Key areas for early LRJ attention include customs valuation processes and the sanitary and phytosanitary regimes. Both of these have a 2000 deadline for compliance for WTO accession, and both have been identified as problems by the private sector and in the USAID-financed Investor Roadmap. USAID funds will support collection and analysis of empirical data, development of policy/LRJ options, and promotion of public-private dialogue on the options among concerned GRZ and private sector actors. USAID will additionally work with key GRZ agencies and PSOs to build capacity to effectively communicate and advocate for continued improvements in policy and LRJ regimes.

**IR 1.3.2, Reduced cost of commercial contract conformity**, is intended to reduce internal barriers in order to promote a business contract culture that does not require recourse to the overburdened Zambian civil court system to resolve disputes. USAID/Zambia's SO4 Democracy and Governance (DG) Team is taking the lead on this activity. With the courts badly overcrowded with commercial and other cases, the DG and PS-RP teams have combined PS-RP funds with the DG design, management, and monitoring to put in place the necessary pieces of a commercial arbitration system. In combination with the International Trade Center of UNCTAD/WTO, USAID has provided a grant to the Law Association of Zambia and the Forum for International Commercial Arbitration, a private foundation, has provided it technical assistance. As of early CY 2000: the second class of Zambian arbitrators has been accredited; a new draft arbitration act modeled on an international example (UNCITRAL) has been formulated and given to government; an extensive public outreach and extension program involving government, the Judiciary and the business community has been mounted; regional ties with neighboring arbitration and alternative dispute resolution initiatives, and with several international institutions, have been established; and work has been started on organizing both a professional association of arbitrators and an administrative center to manage the process.

**IR 1.3.3, Reduced [inappropriate] state involvement in the economy**, initially guided the completion of USAID/Zambia's involvement in the highly successful privatization process which began in 1992. The GRZ divested itself of over 225 state-owned enterprises. USAID/Zambia provided crucial support to the process, making it a conspicuous success for the GRZ. Privatization has greatly reduced the subsidy burden on the government's budgets. It has also allowed markets, including rural markets, to function more efficiently. For the remainder of the plan period, through the NRM/AGR-RP USAID will disseminate information and provide training as necessary to encourage the GRZ to support food emergency (and fertilizer and rural credit) solutions that avoid market disruptions. Through the PS-RP, USAID will also disseminate information on policy/LRJ options to reduce state involvement in trade and investment, as well as work with key GRZ agencies and PSOs to build capacity to effectively communicate, manage, and advocate for continued improvements in policy and LRJ regimes to support, *inter alia*, food security and other key policy goals.



## 2.3 Proposed Tactics, Tools, and Timing to Achieve Results

As summarized in Figure 3, PS-RP resources to achieve IRs 1.2 and 1.3 will be directed through the following tools and tactics:

? IESC's cooperative agreement will be amended and extended to include increased attention to ecotourism (in which it has been active in the past) in addition to its on-going work. IESC will focus on implementing information/ training and linkages activities on a demand- and/or product-driven basis with RNFs. IESC will also continue to work with industry-specific PSOs such as the Tourism Council and the Wildlife Producers Association to build capacity to effectively communicate and advocate for continued improvements in policy and LRJ regimes. The CoAg will be extended incrementally through FY 2003.

? HRDP's cooperative agreement will be continued on a decreasing basis through FY 2002, again focussing on information/training and linkages activities in support of rural enterprise. About half of HRDP's customers are considered "micro" and about half are small and medium RNFs. It offers generic business training rather than product- or sector-specific courses. HRDP will also continue to work with provincial and district-level small business PSOs to build capacity to effectively communicate and advocate for continued improvements in policy and LRJ regimes. USAID will provide short-term technical assistance (ST-TA) to HRDP to help develop a USAID exit strategy that includes a pricing and marketing plan to assure sustainability when USAID funding ends. The exit strategy will emphasize a market-driven business plan that includes course development geared to the needs of other potential clients, e.g. ZATAC, the EU, etc.

? CMS's cooperative agreement will be continued to increase loan capital for MSEs throughout Zambia. This will contribute to reduce internal barriers to investment and trade, as the increased loan capital will foster more robust rural non-farm enterprises and enhance potential backward linkages for larger investors. USAID will carefully "meter" additional funding to expand CMS's loan portfolio through FY 2003, and will allocate new loan capital depending on its performance over time.

? A Long-Term Trade Advisor has been recruited on a competitive basis and will be provided for a one-year period from second quarter FY 2000 through first quarter FY 2002 under an institutional contract. She will work directly with the MCTI and focus about 70 percent of her time on reducing internal barriers to trade and investment (including MCTI staff training and coaching in negotiation skills), and about 30 percent of her time on external harmonization.

? A new Institutional Contract for a four year period (FY 2000-2004) will complement the work of the Advisor to achieve USAID's IR 1.3 and will focus on all five key PS-RP processes: reducing internal barriers, harmonizing policy and LRJ systems with external economic partners, disseminating information and enhancing training on application of the streamlined and harmonized policy and LRJ regimes; building capacity to effectively communicate, manage, and advocate for continued improvements in policy and LRJ regimes, and fostering effective

linkages. The TA contractor will establish one or more public-private sector fora to develop criteria to select policies and LRJ regimes for priority attention, and will apply a multi-dimensional, multi-modal approach to influence and change those policies and regimes to improve the trade and investment environment.

Illustrative criteria would include: potential contribution to GDP growth rate; potential to provide broad-based benefits; cost of implementation (including social and political costs); technical feasibility, including requirements for information and training to assure effective implementation; and compliance with timebound SADC, COMESA, WTO requirements, etc.

Key policies to examine and influence would include exchange rate valuation and various growth strategies, including development of consensus for an export-led strategy. Key areas for early LRJ attention include customs valuation processes and the sanitary and phytosanitary regimes. Both of these have a 2000 deadline for compliance for WTO accession, and both have been identified as problems by the private sector and in the USAID-financed Investor Roadmap.

USAID will request an additional \$1 million in ATRIP funding to allow the contractor to accelerate work on WTO protocols to assure Zambia's accession compliance in 2003 and to assist it with other policy related areas identified in the ATRIP proposal. (This will be included as an Option under the Contract).

As compared to IESC, HRDP, and CMS, the institutional contract will not work directly with individual entrepreneurs but rather will provide demand-driven, problem-centered assistance based on a defined policy/LRJ agenda.

Each agenda item will be subject to a collaborative, inclusive process that involves clarification, research, analysis, recommendations, consultation and dialogue, refinement, development of an Action Plan, and facilitation of its implementation.

The initial agenda will be based on the Private Sector Results Package put in place in FY2000 and will include other documents such as the Zambia Investor Roadmap FY98 as measured against criteria to be proposed by the contractor. (Illustrative criteria and policy/LRJ topics are summarized above.) Through a participatory diagnostic exercise early in the contract, the contractor will develop a more detailed, time-phased policy/LRJ agenda and priorities for analysis. This exercise will involve collaboration with key PS-RP partners, including but not limited to: MCTI, Ministry of Tourism, the Investment Centre, the Tourism Council of Zambia (private sector), the to-be-created Zambia Tourism Marketing Board (public sector), the Zambia Wildlife Authority, ZACCI, ZAM, ZEGA, ZNFU, COMESA, SAEN, IESC, HRDP, CMS, ZATAC, etc.

? With PS-RP funding, USAID's SO4 DG Team will continue to build the capacity of the Zambian Bar Association to decrease internal barriers to trade and investment through identification, testing, and broader application of alternative dispute resolution activities (ADR).

The full acquisitions schedule is presented in the A&A plan at section 3.2 of this RP document.

### **3. MANAGEMENT PLAN**

#### **3.1 Administrative Arrangements**

##### **3.1.1 The Strategic Objective Agreement**

This Results Package is one of two RPs to be included in the SO1 Strategic Objective Agreement, or SOAG (Number 611-SO01) that is currently in draft. USAID expects to sign the SOAG during second or third quarter FY 2000. The SOAG will incorporate on-going efforts under a number of NRM, agriculture, and private sector Project Agreements. For the PS-RP, these include:

- ? Zambia Agribusiness and Management Support (ZAMS, No. 611-0214), with a PACD of 12/30/00, which provides funding for the HRDP/ZACCI Cooperative Agreement;
- ? Private Enterprise Support (PES, No. 611-0220), with a PACD of 6/30/00, which currently funds the IESC Cooperative Agreement;
- ? Zambia Privatization Support (No. 611-0230), with a PACD of 9/30/02, which funds periodic technical assistance and training activities. This project has a substantial pipeline that will be allocated to new activities under the PS-RP; and
- ? Agriculture Sector Liberalization Project (No. 611-0231), with a PACD of 9/30/2002, which funds the CMS Cooperative Agreement.

The expected life-of-plan total USAID contribution under the SOAG (incorporating, agriculture, environment and the private sector activities under the Strategic Objective) is US\$34 million for the life-of-plan.

The Mission will waive the GRZ contribution, given Zambia's status as an RLDC.

Annex 1 to the SOAG, the Amplified Description, will include a description of the PS-RP. This RP document fulfils all ADS Design/Feasibility Analysis requirements at ADS 202.6 (RP document sections 3, 4, and 5), Acquisition and Assistance Planning requirements at ADS 304 (RP document section 3.2), and Performance Monitoring Plan requirements at ADS 203.5.5 (RP document section 6). The PS-RP Team's responsibilities with regard to the ADS pre-obligation requirements as summarized in ADS 202's pre-obligation checklist (2026s2) are deemed to be met.

USAID/Zambia's Program Office will complete the Statutory Requirements of ADS 202.6 prior to SOAG signature, e.g. the Country checklist, Assistance checklist, CN/TN, and Initial Environmental Examination. The Program Office will elaborate any Conditions Precedent and Covenants (ref. ADS 202.6.2) in consultation with the SO1 Team. To foster transparency and GRZ ownership, USAID will process an implementation letter with the GRZ with a short description of the RP to record their mutual agreement on its main elements.

### **3.1.2 Government of the Republic of Zambia, Public, Private, and NGO Sector Partners**

The GRZ Ministry of Finance and Economic Development (MOFED) is the designated signatory under the SO1 SOAG. The MOFED will identify authorized signatories and a Coordinator who will serve as a key counterpart of the USAID SO1 Team Leader regarding overall strategic issues and liaison with the GRZ.

Coordination and decision making regarding ongoing implementation of PS-RP activities under SO1 will be assured through an informal consultative process that will involve customers, partners and other stakeholders on an on-going, topic-driven basis. Key stakeholders are expected to include but not be limited to the MCTI, Ministry of Finance, Ministry of Legal Affairs, Ministry of Tourism, the Investment Centre, the Tourism Council of Zambia (private sector), the to-be-created Zambia Tourism Marketing Board (public sector), the Zambia Wildlife Authority (ZAWA), ZACCI, ZAM, COMESA, South African Enterprise Network (SAEN), etc.

USAID and the new TA contractor will establish processes and/or systems for broad-based customer consultation and input as the program progresses, to assure that USAID maintains its core values of customer service and participation throughout the life-of-plan.

### **3.1.3 USAID**

The CSP at pages 19-20 states that "due to the diversity of interventions in the economic growth objective there will be two results package teams:

**Results Package Team 1-A** will be responsible for achieving results in the portions of the objective which address the nexus between farmers and the market with the rural families as their ultimate customers. This team will approach the strategic objective from the rural families' point of view.

**Results Package Team 1-B** will be responsible for the results in portions of the objective which take the rural non-farm businesses as ultimate customers. This team will approach the strategic objective from the business point of view."

These two teams have evolved into the "NRM/AGR-RP" Team and the "PS-RP" Team but the division of responsibility and authority remains the same as planned in the CSP.

As provided in the **ADS E202.5.4a, Establishment of Results Packages**, "*results packages may be managed by the strategic objective team or by a subgroup established by that team (a results package team).*" This PS-RP document meets the criteria for a results package as elaborated therein.

In conformance with the CSP, and following provisions of the ADS, USAID's Private Sector RP Manager will be responsible for management of the PS-RP and related activities (e.g. REDSO, RCSA complementary inputs). S/he will provide overall leadership for RP strategic functions.

S/he will additionally guide and direct the RP Team, which is responsible for day-to-day operational management of activities under the PS-RP. The PS-RP Team includes the TCN-PSC Private Sector RP Manager; an FN-PSC Private Sector Specialist currently under recruitment; the Director; the SO1 Team Leader and key members of the NRM/AGR RP team; the D/G Advisor; and representatives of the Program, Controller, and Executive Office. This management team will assure that RP implementation follows all relevant requirements that guide DA-funded bilateral activities of USAID.

This core RP team will maintain close contact and collaboration with other USAID offices and SO teams, and with the GRZ, the public, private, and NGO sector advisory boards, TA contractors, direct recipients and grantees, and other partners, and undertake periodic consultation with customers and beneficiaries in the provinces. It will additionally maintain close contact with relevant virtual team members:

- ✍ in USAID/ Washington, virtual team members include representatives of AFR/SD, Strategic Analysis Division; G/EG/MD Microfinance; AFR/SA, Desk Officer; and G/EGAD/EM, Private Sector.
- ✍ at REDSO, key virtual team members include the SO1 Team Leader/Economist, and representatives from the offices of Program Development and Planning, and Agriculture.
- ✍ at RCSA, the PSRP virtual team includes the SO2 Team Leader, the SO2 Trade and Investment Manager, and the SO2 Infrastructure Manager.

Key RCSA team members also include the Regional Contracting Officer (RCO) and the Regional Legal Advisor (RLA), and each is expected to visit Zambia two or more times each year.

### **3.2 Acquisitions and Assistance (A&A) Plan**

There are five primary A&A activities for this RP, of which three are amendments to existing instruments and only two are new acquisitions. The three amendments are to continue assistance and incremental funding to IESC, HRDA (three years only) and CMS for the life-of-the-plan. The two new acquisitions are for the new Trade Advisor, which has been conducted through a limited competition with US firms, and new institutional contract to achieve IR1.3. This latter will be a free and open competition undertaken during the last 3 quarters of FY 2000.

There are also some smaller procurements for a Post-Privatization Analysis and other short-term studies and TA necessary for prudent USAID oversight and management. These are more routine actions and not detailed herein.

Assuming the SOAG is signed prior to June 2000, USAID plans to execute all the substantive amendments described below under the new SOAG, to allow for future flexibility. Any incremental funding amendments prior to that time would be executed under the current funding sources and subject to the PACD of those sources. While this is not a problem for the

Privatization Project funds with a PACD of September 2002 (e.g. IESC, the Trade Advisor, initial obligation for the new TA contract) it may become a problem for funds obligated under the Zambia Agribusiness Management Support (e.g., HRDP) due to the September 2000 PACD. USAID will to the extent possible shift all funding to the SOAG as soon as possible, to decrease administrative burdens of multi-project management.

**1) IESC Cooperative Agreement 690-A-00-98-00176-00**

**Effective Date:** 6/20/97

**Current Completion Date:** 6/30/2000

**Current Life-of-Agreement Funding:** US\$1,480,000 (fully committed)

Private Enterprise Support Grant No 611-0220 with a PACD of 6/30/2000; will shift to new SO1 SOAG during FY 2001.

**Date Actions are Required:** o/a June 2000 (if CoAg Completion Date is 9/30/00, should be about 90 days before for comfort)

**2) HRDP/ZACCI Cooperative Agreement 690-A-0097-00073-00**

**Effective Date:** October 1996

**Current Completion Date:** September 30, 2000

**Current Life-of-Agreement Funding:** US\$1,554,267 (fully committed)

**Current Funding Source:** Zambia Agribusiness and Management Support (ZAMS, No. 611-0214), with a PACD of 12/30/00; New SO1 SOAG thereafter.

**Date Actions are Required:** o/a June 2000

**Reference:** ADS 303.5.5d(a), Exceptions to Competition cited above.

**3) CMS Cooperative Agreement 690-A-00-00026-00**

**Effective Date:** February 5, 1999

**Current Completion Date:** September 30, 2001

**Current Life-of-Agreement Funding:** US\$930,000 (US\$216,620 committed to date)

**Current Funding Source:** Zambia Agricultural Sector Liberalization Project (No. 611-0231) with a PACD of 9/30/2002; New SO1 SOAG thereafter.

**4) Trade Advisor**

**Est. Effective Date:** o/a March 1, 2000

**Est. Completion Date:** o/a February 28, 2001

**Date Required:** ASAP

The Long-Term Trade Advisor has been recruited on a competitive basis and will be provided for a 1 year period from second quarter FY 2000 through second quarter FY 2001. She will work directly with the MCTI and focus about 70 percent of her time on reducing internal barriers to trade and investment (including MCTI staff training and coaching in negotiation skills), and about 30 percent of her time on external harmonization. The need for further long-term advisory

services to the MCTI will be reassessed during the latter part of FY2001 and a decision to continue or not will be made at that time.

#### **5) New Institutional TA Contract**

**Est. Effective Date:** o/a September 20, 2000

**Est. Completion Date:** o/a September 19, 2004

**Date Required:** The SOW should be completed on or before 1 March 2000 if the Contractor is to mobilize by October-November 2000.

**References:** The procurement is a free and open competition for US firms and should follow all requirements for such.

The Statement of Work for the institutional contract will be performance-based (as opposed to level-of-effort). It will provide funding for: short- and long-term technical assistance (TA); support to/provision of non-academic in-country and third-country workshops, conferences, training, and observation tours; development and dissemination of information on trade and investment issues and best practices; provision of necessary equipment to complement TA to key growth-enabling agencies; and facilitation of coordination between all USAID partners engaged in PS-RP activities

? The contract will be for a four year period (funding will be from FY 2000-2003, although due to mobilization at the end of FY 2000, actual in-country implementation will be FY 2001-FY2004). The contract will compliment USAID's IR 1.3 and will focus on all five key PS-RP processes: reducing internal barriers, harmonizing policy and LRJ systems with external economic partners, disseminating information and enhancing training on application of the streamlined and harmonized policy and LRJ regimes; building capacity to effectively communicate, manage, and advocate for continued improvements in policy and LRJ regimes, and fostering effective linkages. The TA contractor will establish one or more public-private sector fora to develop criteria to select policies and LRJ regimes for priority attention, and will apply a multi-dimensional, multi-modal approach to influence and change those policies and regimes to improve the trade and investment environment.

As stated earlier, illustrative criteria would include: potential contribution to GDP growth rate; potential to provide broad-based benefits; cost of implementation (including social and political costs); technical feasibility, including requirements for information and training to assure effective implementation; and compliance with timebound SADC, COMESA, WTO requirements, etc.

Key policies to examine and influence would include exchange rate valuation and various growth strategies, including development of consensus for an export-led strategy. Key areas for early LRJ attention include customs valuation processes and the sanitary and phytosanitary regimes. Both of these have a 2000 deadline for compliance for WTO accession, and both have been identified as problems by the private sector and in the USAID-financed Investory Roadmap.

USAID will request an additional \$1 in ATRIP funding to allow the contractor to accelerate work on WTO protocols to assure Zambia's accession compliance in 2003 and to work on other critical policy issues. (This will be included as an Option under the Contract).

As compared to IESC, HRDP, and CMS, the institutional contract will not work directly with individual entrepreneurs but rather will provide demand-driven, problem-centered assistance based on a defined policy/LRJ agenda.

Each agenda item will be subject to a collaborative, inclusive process that involves clarification, research, analysis, recommendations, consultation and dialogue, refinement, development of an Action Plan, and facilitation of its implementation.

The initial agenda will be based on the Private Sector Results Package 2/2000 and on the Investor Roadmap funded by USAID in FY 1998. Through a participatory diagnostic exercise early in the contract, the contractor will develop a more detailed, time-phased policy/LRJ agenda and priorities for analysis. This exercise will involve collaboration with key PS-RP partners, including but not limited to: MCTI, MOFED, Ministry of Tourism, the Investment Centre, the Tourism Council of Zambia (private sector), the to-be-created Zambia Tourism Marketing Board (public sector), the Zambia Wildlife Authority, ZACCI, ZAM, ZEGA, ZNFU, COMESA, SAEN, IESC, HRDP, CMS, ZATAC, etc.

The Mission fully supports USAID policy regarding use of performance based contracting, but believes that if a performance-based Statement of Work is developed, the cost-plus rather than fixed-price type of contract is more appropriate to the dynamic Zambian situation. The Mission believes that some form of flexible annual target adjustments, combined with the semi-annual formal reviews, will provide an effective partnership for achieving mutual results over the life-of-program.

The Mission will define contractible objectives/milestones for the TA contract and provide a signed MAARD to the RCO by the end of February 2000, to allow for the following solicitation schedule:

- ? Statement of Work written and MAARD to RCO by March 1, 2000 ;
- ? RCO issues Request for Proposals o/a April 20, 2000 for 45 day period;
- ? Proposals received o/a June 5, 2000;
- ? Proposal reviews, including required Past Performance Reviews, completed and write ups to RCO on or about June 25, 2000;
- ? RCO completes cost evaluation and analysis, and write memo to file o/a July 31, 2000;
- ? Negotiations/BAFO requests August 1-10, 2000;
- ? Receive BAFOs August 30, 2000
- ? BAFO technical evaluation & cost evaluation and analysis completed September 15, 2000
- ? Contract awarded on or about 20 September 2000.
- ? Team arrives end-October 2000, establishes office, settles in;



? Diagnostic/planning completed in November-December 2000 to allow for full activities to be underway for beginning of CY 2001.

During the contract acquisition period, USAID may continue to access ST-TA from RCSA and other sources to further RP objectives.

#### **4. ANALYSIS OF FEASIBILITY, KEY ASSUMPTIONS, RELATED RISKS**

##### **4.1 Summary Technical Analysis**

As stated above, the key hypothesis underlying the PS-RP is that *establishment of forward and backward linkages among enterprises within Zambia, as well as between Zambia and the rest of the world, is critical to economic growth.* The key operating assumption is *that the Zambia's private sector is in the midst of change and we cannot at this time predict exactly which level, and which tactic, will have the most impact on rural income (USAID's SO1). As experience is gained and results become more apparent, we will adjust implementation modalities to maximize impact as possible.*

Given the hypothesis and operating assumption, the technical feasibility of the approaches to achieving results with the different private sector customer segments under this RP is well-established. USAID reports that it is meeting or exceeding targets through existing implementation mechanisms using tailored technical approaches to MSEs with IESC, HRDP, and CMS. It has prior and current experience using long- and short-term TA with the GRZ and other "upper end" agencies in Zambia to influence policy/LRJ change through the Privatization Project and with RCSA short-term support. USAID recognizes that the process of encouraging/coaching/ cajoling the GRZ to actually implement reforms will be uneven, but is convinced that a process based on demand-driven, problem-centered assistance utilizing empirical data and analyses to address a collaboratively defined policy/LRJ agenda is the best way to process. As stated above, attention to each agenda item will be subject to a collaborative, inclusive process that involves clarification, research, analysis, recommendations, consultation and dialogue, refinement, development of an Action Plan, and facilitation of its implementation. This process has worked in a number of other USAID countries, notably Madagascar and Mali (the latter with ATRIP funding), and USAID believes it can be adapted to be effective in Zambia.

As stated above, the "starting point" of the agenda will be comparing agreed-upon selection criteria with a list of potential policies needing attention (e.g. export-led growth policy) and barriers identified in the detailed Investor Roadmap (e.g. Customs, Sanitary and Phytosanitary regimes). The Roadmap is similar to those that have been prepared and used as "starting points" in many other southern and eastern African countries. Given this starting point and proven technical methods adopted, the PS-RP approach is thus considered technically sound.

##### **4.2 Summary PS-RP Customers and Socio-Cultural Feasibility**

The primary customers of the PS-RP are Zambian businesses – micro, small, medium, and large – and the public and private sector agencies that represent and support them. Section 1.1.2 provides more quantitative and qualitative definitions of the different customer segments: in 1999 there were 354 large and 2,808 medium-sized businesses, of which the majority were in agriculture and manufacturing, and most of the rest in services. Because so many of the micro-enterprises are in the informal sector and are unregistered, data are less precise; however, estimates generally place micro- and small enterprises in the range of 600,000 and growing. At this size, the majority are in commerce and trade, with agriculture and services ranking second in terms of number of businesses.

As stated in the HRDP evaluation, however, "There is also a qualitative dimension to the definition of small and micro enterprises in Zambia that has been observed. Metaphorically, a *small* business seems to be one in which the owner "wears a tie" – basically educated, retrenched employees who are seeking to open their own businesses, even with fewer than five employees and less than \$20,000 capitalization. *Micro* enterprises, by contrast, are those in which the owner does not wear a tie, typified, for example, by street and market vendors, individual mechanics and seamstresses. "<sup>10</sup>

Similarly, as quoted in section 1.1.2, there is a difference amongst the medium and large businesses, particularly between the large multi-nationals and the smaller Zambian-owned businesses. These business and social differences have led to difficulties in forging strong private sector organizations that undertake effective dialogue and advocacy with the Zambian government, let alone with regional and international entities.

The PS-RP will support both direct assistance to the different segments of the private sector as well as indirect assistance through improvements to policy and the LRJ environment. As stated earlier, in general, PS-RP efforts to achieve IR1.2, increased contribution of rural non-farm enterprises (RNFEs) to private sector growth, will target both individual and groups of MSEs that form the bulk of the RNFEs, and will center on three key processes disseminating information and providing training, building capacity to effectively communicate and advocate for continued improvements in policy and LRJ regimes, and fostering effective linkages. PS-RP efforts under IR1.3, improved trade and investment environment, will target the medium and large enterprises and the representative PSOs and GRZ agencies that support them, and will utilize all five key processes to achieve the desired change.

This multi-tiered approach takes into account the specific needs and aspirations of the different sizes and types of businesses, yet will foster improved communication and collaboration between and among them. Because the PS-RP strategy recognizes the differences and includes such differentiated strategies, it is considered customer-responsive and feasible from a socio-cultural perspective.

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<sup>10</sup> Landmann and Gray, Carana Corporation, p. 5

More information on micro- and small enterprises is found in the numerous HRDP/ZACCI documents and studies on file with USAID's SO1. More information on the medium and large-scale businesses is found at ZACCI and the Central Statistics Office.

### 4.3 Summary Economic Analysis/Prospects for Sustainability

The PS-RP development hypothesis is that *establishment of forward and backward linkages among enterprises within Zambia, as well as between Zambia and the rest of the world, is critical to economic growth. The key operating assumption is that the Zambia's private sector is in the midst of change and we cannot at this time predict exactly which level, and which tactic, will have the most impact on rural income (USAID's SO1). As experience is gained and results become more apparent, we will adjust implementation modalities to maximize impact as possible.*

The hypothesis was formulated from assessing the prior experience of a number of countries that have succeeded in bettering their positions for multilateral trade. As summarized in a recent paper, effective engagement in a multilateral trade environment requires:

- ✂ An **informed bureaucracy**, knowledgeable about the rationale and the details of the nation's multilateral, regional, and bilateral trade agreements.
- ✂ An equally **informed private sector** and **citizenry**, sensitive to the market opportunities that trade agreements provide, and able to adapt to global competition.
- ✂ Regular and timely access to comprehensive **trade and market information**, for both government policy-makers and private sector operators in international trade.
- ✂ Efficient **coordination of action** among the government agencies concerned with WTO- and other trade related policies [e.g. SADC, COMESA], and between government and the private sector.<sup>11</sup>

Zambia currently does not fully meet any of those requirements, and is thus ill-positioned to trade effectively in the regional SADC and COMESA markets let alone in the WTO regimes. Activities under the PS-RP will utilize a cost-effective approach to helping the Zambian public and private sectors to achieve these conditions. On-going TA and training under the IESC and HRDP/ZACCI cooperative agreements are providing trade and market information to the private sector and providing assistance to representative PSOs at the national and sub-national levels to enhance coordination of action. The proposed new TA contract to achieve IR1.3 will address all four requirements on a multi-dimensional basis, approaching change from the perspective of specific topics or problems; from the institutional perspective; and with attention to forging improved linkages. If Zambia can indeed align its policies and LRJ regimes – e.g., correct valuation of the *kwacha*, support to an export-led growth strategy, customs valuation, sanitary and phytosanitary standards, etc -- to meet the challenges and opportunities afforded by the SADC, COMESA, and WTO regimes, USAID's key quantitative indicator – the level of non-traditional exports – will indeed increase significantly.

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<sup>11</sup> Graf, P. Lance, Vice President Nathan Associates, "WTO-Related Technical Assistance Symposium for Sub-Saharan Africa, Program Elements to Build National Core WTO Expertise," November 29, 1999, Seattle, Washington.

An attempt to put in place an operational policy analysis unit to replace the National Commission for Development Planning have not been successful. Attempts at simple barrier removal, where the topic/problem has been addressed but concomitant information and training to public and private sector institutions has not been provided have not been a success. USAID's proposed multi-dimensional approach to the multi-dimensional constraints to improved trade and investment in Zambia is considered cost-effective and the least risky of alternatives examined. Importantly, it should contribute to policy/LRJ changes that have Zambian ownership and will thus actually be implemented and sustained over time.

## **5. PERFORMANCE MONITORING PLAN**

### **5.1 Performance Measures**

The existing performance measures for SO1 are the approved indicators and targets initially approved with the 1998-2002 CSP, as they have evolved in subsequent R4s, and need not be restated herein. These indicators and targets will be reported on through at least their completion. Reporting on many -- though some may be slightly revised -- indicators may be continued through the life-of-program, thus affording opportunity for trend analysis of USAID program impact over time.

USAID will use one new indicator to better track the impact PS-RP assistance under IR1.3, and will propose its formal incorporation into the SO1 Performance Monitoring Plan (PMP) in the FY 2002 R4 prepared in March 2000. It is presented in Table 4 that follows.

**Table 4: Proposed New SO1 Indicator for IR1.3**

<b>OBJECTIVE:</b> S.O. 1: Increased rural income of selected groups <b>APPROVED:</b> _____ <b>COUNTRY/ORGANIZATION:</b> USAID/Zambia			
<b>RESULT NAME:</b> I.R. 1.3 Improved trade and investment environment			
<b>INDICATOR:</b> 1.3.2 Improved national trade and investment policies, legislation, regulations developed, approved, and implemented. Specific national Policies, laws, regulations to be targeted will be developed collaboratively with the GRZ during FY 2000 for inclusion and reporting beginning in FY 2001 (for the FY 2003 R4). Potential policies/LRJ/regulations to be addressed would include: safeguard measures, phytosanitary regulations, streamlined tourism policies/LRJ/regulations, and specific harmonization with SADC, COMESA, and WTO.			
<b>UNIT OF MEASURE:</b> Policies, laws, regulations  <b>SOURCE:</b> Policy documents/decrees, activity reports from contractors and grantees.  <b>INDICATOR DESCRIPTION:</b> USAID assessment of the extent to which each Policy/law/regulation has been:  DEV = Defined and Developed APP = Formally approved by the GRZ DISS = Disseminated to a wide audience IMP = Implemented on a general basis  <b>COMMENTS:</b> USAID plans to access TA during FY 2000 to assist USAID and the GRZ and private sector partners in definition of a policy/LRJ/regulatory agenda to be addressed. .	<b>YEAR</b>	<b>PLANNED</b>	<b>ACTUAL</b>
	2000 Item A Item B etc.		
	2001 Item A Item B etc.		
	2002 Item A Item B etc.		--

## 6.2 Performance Measurement

The Performance Monitoring Plan for SO1 was constructed, and will continue, to maximize use of data from reliable, valid sources so as to minimize any additional burden on USAID's limited staff resources. Reporting to date by collaborating partners has been timely and meets USAID/Zambia's standards for prudent program management and R4 reporting. Reporting on the proposed new indicator for IR1.3 will be undertaken by USAID and the new institutional contractor and is not viewed as an additional burden.

The detailed PMP is on file at USAID/Zambia's Program Office in Lusaka.